

Slovakia

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Macroeconomic overview

In 2009, Slovakia faced the full impact of the global financial and economic crisis, which resulted, in particular, in a significantly weaker foreign demand, lower domestic investment and a deterioration of labour market conditions. The economy was heavily dependent on exports, especially the car industry sector; therefore the negative developments in this sector slowed down the Slovak economy. However, the Slovak economy benefited from a stable monetary environment having joined the euro area on January the 1st, 2009.

Real GDP in Slovakia had recorded a 6.2% increase in 2008 over the previous year, while in 2009 it recorded a significant year-on-year drop (4.7%). The unemployment rate in 2009 rose from 9.5% to 12%. The inflation rate measured as HICP reached 0.9%.

Housing and mortgage markets

In 2009, the number of total housing starts amounted to 20,325 units and the number of dwelling completions amounted to 18,834 units. The number of completions increased by 1,650 apartments on 2008.

In comparison with 2008, property prices in 2009 were lower in some regions of Slovakia by around 30%. The biggest decline was recorded in the luxury segment and in large apartments. Together with a more cautious approach of banks in granting mortgages and the persistently uncertain sentiment of buyers, the real estate market significantly slowed down. Homebuyers potentially benefited from these housing market conditions, since they could negotiate prices and conditions. The number of newly-built and vacant properties increased, and sellers were often able to sell only after discounting the initial price.

The total volume of new residential loans in 2009 was EUR 9,226 million. The demand for mortgages rapidly decreased at the beginning of 2009, moving along the trend observed from late 2008. This decrease in mortgage demand was driven by a negative economic situation, high unemployment and an uncertain attitude of households. However, conditions in the mortgage market improved in the second half of 2009.

The typical mortgages offered in Slovakia are initial fixed-rate mortgages, mostly with fixed terms of 1, 3 and 5 years; clients started preferring longer fixed terms due to an expected increase in interest rates. The average mortgage interest rate in 2009 was 5.5%, which represented a decrease compared to 2008. However the interest rates (risk margins) in Slovakia still remain higher than the euro area average. Due to the slowdown in the real estate market and dropping property prices, the average mortgage value decreased. Banks generally responded to decreasing property values, increasing unpaid instalments and high unemployment rates by adopting measures aimed at preventing risky loans. Banks therefore tightened their lending criteria by lowering LTV ratios (which ranged from 70% to 80%) and limiting the availability of certain types of loans. At the end of the year, banks loosened their lending criteria, once the situation of the real estate market improved. In 2009, defaulted mortgage loans accounted for approximately 3.2% of the outstanding mortgage loans to households.

In 2009, young borrowers continued to receive a repayment subsidy from the government. The subsidy was introduced in 2007 and, initially, it provided a 1.5% subsidy from the government, plus an additional 1.0% subsidy from the lending institutions. In 2009 the repayment subsidy amounted to 3%. Apart from this subsidy, the government introduced a state support programme for borrowers who are in trouble with their mortgage repayments.

Funding

The total nominal value of mortgage covered bonds issued in 2009 reached EUR 707 million, which was significantly lower than previous years. This was a reflection of the conditions of financial markets as well as of the decreased mortgage lending activity. The National Bank of Slovakia also temporarily allowed banks to decrease the funding of mortgages by mortgage bonds from 90% to 70%. The overall funding of residential mortgages decreased from 91% to 87%. Approximately 25% of issued mortgage bonds remain in the domestic banking sector.

	EU27, 2009	Slovakia, 2009	Slovakia, 2008
GDP growth (%)	-4.2	-4.7	6.2
Unemployment rate (%)	8.9	12.0	9.5
Inflation (%)	1.0	0.9	3.9
% owner occupied	68.2	88.0	88.0
Residential Mortgage Loans as % GDP	51.9	14.6	13.2
Residential Mortgage Loans per capita, EUR thousand	12.37	1.70	1.58
Total value of residential loans, EUR million	6,125,727	9,226	8,536
Annual % house price growth	-6.8	-12.5	22.0
Typical mortgage rate (euro area), %	2.71	5.50	6.20
Outstanding Covered Bonds as % outstanding residential lending	23.2	39.1	41.9

Source: EMF, Eurostat, ECB, National Bank of Slovakia, Slovak Statistical Office, Ministry of Construction and Regional Development of the Slovak Republic

Notes:

- Typical mortgage rate in the euro area refers to the APRC (Source: ECB)
- EU owner occupation rate average derived from EMF calculations based on latest available data.

Slovakia= 2009